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December 16, 2005



Ms. Bambi Brenden
Procurement Officer
Arizona Department of Environmental Quality
Mail Code 6415A-4
1110 West Washington Street
Phoenix, Arizona 85007

Dear Ms. Brenden

Brown and Caldwell (BC) is submitting this correspondence to the Arizona Department of Environmental Quality to demonstrate its financial stability and interest in Tanks Solicitation #SCC060008. As a privately held corporation, BC does not distribute copies of their financial statements to third parties. Because we do not provide financial information to Dun & Bradstreet (D & B), the information contained in the D & B Report is incomplete. Therefore, instead of providing a D & B Report as requested, please find enclosed audited financial statements of BC and its subsidiaries for the Fiscal Years 2003 and 2004. These financial statements should only be used for the express purpose of pursuing the Tanks Solicitation. The audit of the Fiscal Year 2005 financial statements is currently in progress, and therefore not available at this time.

Brown and Caldwell has been providing environmental engineering and consulting services to public and government agencies and private industry since 1947. The company has a diverse market base, which we believe strengthens our ability to provide services across a wide geographical plain. From 2000 to 2004, the company has experienced approximately 30 percent growth in total revenues and a 38 percent growth in current assets, providing the foundation for a strong balance sheet and substantial shareholders equity. In Engineering News Record surveys of the top 200 environmental firms in revenues, BC has ranked in the top 20 percent of companies since 1998.

We are confident that our financial condition will enable us to meet your needs.

Very truly yours,

BROWN AND CALDWELL

A handwritten signature in cursive script, reading "Valorie Feher".

Valorie Feher
Senior Vice President
Director, Finance and Administration

Enclosures



BROWN AND CALDWELL AND SUBSIDIARIES

Consolidated Financial Statements

September 24, 2004 and September 26, 2003

(With Independent Auditors' Report Thereon)



KPMG LLP
55 Second Street
San Francisco, CA 94105

Independent Auditors' Report

The Shareholders and the Board of Directors
Brown and Caldwell:

We have audited the accompanying consolidated balance sheets of Brown and Caldwell and subsidiaries as of September 24, 2004 and September 26, 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brown and Caldwell and subsidiaries as of September 24, 2004 and September 26, 2003, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

December 3, 2004

BROWN AND CALDWELL AND SUBSIDIARIES

Consolidated Balance Sheets

September 24, 2004 and September 26, 2003

Assets	2004	2003
Current assets:		
Cash and cash equivalents	\$ 229,505	270,561
Accounts receivable – including retention of \$1,665,992 and \$1,246,222, net of allowances of \$735,239 and \$846,839 in 2004 and 2003, respectively	44,253,811	32,172,956
Unbilled costs and accrued income	13,122,807	17,609,914
Notes and other receivables	480,500	1,399,004
Prepaid expenses and other current assets	4,179,461	4,809,958
Total current assets	62,266,084	56,262,393
Equipment, furniture, and fixtures:		
Equipment	12,250,070	8,823,985
Furniture and fixtures	2,123,042	1,737,735
Leasehold improvements	3,492,609	3,327,666
Total equipment, furniture, and fixtures	17,865,721	13,889,386
Less accumulated depreciation	(8,390,197)	(8,115,605)
Equipment, furniture, and fixtures, net	9,475,524	5,773,781
Other assets:		
Investments	357,143	357,143
Goodwill	4,504,338	4,504,338
Deferred income taxes	—	432,000
Total other assets	4,861,481	5,293,481
Total assets	\$ 76,603,089	67,329,655
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 8,989,651	7,083,789
Checks in transit	968,129	1,306,191
Accrued liabilities	22,592,121	16,841,664
Deferred income	9,363,908	6,915,781
Long-term debt, due within one year	1,752,384	1,828,220
Note payable – investment	—	750,000
Deferred income taxes	8,100,000	9,144,000
Total current liabilities	51,766,193	43,869,645
Long-term debt, due after one year	2,019,590	3,316,002
Deferred income taxes	628,000	—
Other liabilities	1,856,221	2,216,413
Total liabilities	56,270,004	49,402,060
Shareholders' equity:		
Common stock, Class A, \$0.25 par value. Authorized 4,000,000 shares; issued and outstanding 649,432 and 658,300 shares in 2004 and 2003, respectively	162,359	164,575
Common stock, Class B, \$0.25 par value. Authorized 1,000,000 shares; issued and outstanding 10,637 and 11,317 shares in 2004 and 2003, respectively	2,659	2,829
Additional paid-in capital	2,478,954	1,974,510
Unearned compensation	(141,676)	(137,500)
Retained earnings	18,317,831	16,686,603
Notes receivable for common stock issued	(487,042)	(763,422)
Total shareholders' equity	20,333,085	17,927,595
Total liabilities and shareholders' equity	\$ 76,603,089	67,329,655

See accompanying notes to consolidated financial statements.

BROWN AND CALDWELL AND SUBSIDIARIES

Consolidated Statements of Income

Years ended September 24, 2004 and September 26, 2003

	<u>2004</u>	<u>2003</u>
Revenues from professional services	\$ 187,708,854	177,567,643
Costs and expenses:		
Direct costs and expenses	90,791,167	91,234,954
Indirect costs and general and administrative expenses	90,517,428	79,578,479
Depreciation and amortization	2,501,839	2,451,252
Total costs and expenses	<u>183,810,434</u>	<u>173,264,685</u>
Income from professional services	<u>3,898,420</u>	<u>4,302,958</u>
Other income (expense):		
Interest income	47,831	81,344
Interest expense	(189,069)	(321,347)
Miscellaneous income	1,884	224,268
Other income (expense), net	<u>(139,354)</u>	<u>(15,735)</u>
Income before income tax expense (benefit)	3,759,066	4,287,223
Income tax expense (benefit)	<u>1,303,780</u>	<u>(961,000)</u>
Net income	<u>\$ 2,455,286</u>	<u>5,248,223</u>
Weighted average shares outstanding:		
Basic	633,987	649,391
Diluted	711,466	706,858
Income per share:		
Basic	\$ 3.87	8.08
Diluted	3.45	7.42

See accompanying notes to consolidated financial statements.

BROWN AND CALDWELL AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity

Years ended September 24, 2004 and September 26, 2003

	Class A and B common stock		Additional paid-in capital	Unearned compensation	Retained earnings	Notes receivable for common stock issued	Total shareholders' equity
	Shares	Amount					
Balances, September 27, 2002	681,179	170,294	1,634,286	—	12,117,668	(938,253)	12,983,995
Issuance of common stock	45,092	11,273	1,203,139	—	—	—	1,214,412
Issuance of restricted stock	5,000	1,250	136,250	(137,500)	—	—	—
Repurchase of common stock	(61,654)	(15,413)	(999,165)	—	(679,288)	1,592	(1,692,274)
Payments on stock notes receivable	—	—	—	—	—	173,239	173,239
Net income	—	—	—	—	5,248,223	—	5,248,223
Balances, September 26, 2003	669,617	\$ 167,404	1,974,510	(137,500)	16,686,603	(763,422)	17,927,595
Issuance of common stock	38,738	9,685	1,318,360	—	—	—	1,328,045
Issuance of restricted stock	1,458	365	49,644	(50,009)	—	—	—
Amortization of restricted stock	—	—	—	45,833	—	—	45,833
Repurchase of common stock	(49,744)	(12,436)	(863,560)	—	(824,058)	100,437	(1,599,617)
Payments on stock notes receivable	—	—	—	—	—	175,943	175,943
Net income	—	—	—	—	2,455,286	—	2,455,286
Balances, September 24, 2004	660,069	\$ 165,018	2,478,954	(141,676)	18,317,831	(487,042)	20,333,085

See accompanying notes to consolidated financial statements.

BROWN AND CALDWELL AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended September 24, 2004 and September 26, 2003

	2004	2003
Cash flows from operating activities:		
Net income	\$ 2,455,286	5,248,223
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	2,501,839	2,451,252
Loss (gain) on disposal of equipment, furniture, and fixtures	7,899	(4,939)
Stock bonus expense	715,155	633,050
ESOT stock contribution	612,890	453,900
Restricted stock amortization	45,833	—
Gain from investments, net	—	(107,143)
Deferred income taxes	16,000	740,000
Changes in operating assets and liabilities:		
Accounts receivable	(12,080,855)	136,020
Unbilled costs and accrued income	4,487,107	(988,151)
Prepaid expenses and other assets	(119,503)	(1,175,270)
Accounts payable	1,905,862	(853,662)
Accrued liabilities	5,750,457	1,879,753
Deferred income	2,448,127	2,476,709
Other liabilities	(360,192)	364,898
Net cash provided by operating activities	8,385,905	11,254,640
Cash flows from investing activities:		
Purchases of equipment, furniture, and fixtures	(6,211,481)	(2,636,734)
Proceeds from sale of equipment, furniture, and fixtures	—	144,322
Decrease (increase) in notes and other receivables	868,504	(96,890)
Net cash used in investing activities	(5,342,977)	(2,589,302)
Cash flows from financing activities:		
Decrease in checks in transit	(338,062)	(3,774,036)
Borrowings under debt agreements	343,322	—
Repayments under debt agreements	(1,850,692)	(3,570,000)
Repurchase of common stock	(1,414,495)	(1,472,274)
Payments on stock notes receivable	175,943	173,239
Net cash used in financing activities	(3,083,984)	(8,643,071)
Net (decrease) increase in cash and cash equivalents	(41,056)	22,267
Cash and cash equivalents – beginning of year	270,561	248,294
Cash and cash equivalents – end of year	\$ 229,505	270,561
Cash paid during the year for:		
Interest	\$ 145,629	323,009
Taxes	1,211,766	954,761

See accompanying notes to consolidated financial statements.

BROWN AND CALDWELL AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 24, 2004 and September 26, 2003

(1) Description of the Business

Brown and Caldwell and subsidiaries (the Company) provides environmental engineering, consulting, and construction management services to public and government agencies and private industry throughout North America and abroad.

The Company's fiscal year ends on the last Friday in September. The fiscal years ended September 24, 2004 and September 26, 2003 each consisted of 52 weeks.

(2) Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Brown and Caldwell and its subsidiaries. Significant intercompany balances and transactions have been eliminated.

(b) Revenues

Revenue recognition on long-term contracts is based on the percentage-of-completion method in the ratio that costs incurred bear to estimated costs at completion. Losses are accrued in their entirety in the period when current estimates of total contract costs indicate a loss.

The asset "unbilled costs and accrued income" represents revenues recognized in excess of amounts billed. The liability "deferred income" represents billings in excess of revenues recognized.

In the ordinary course of business, the Company periodically conducts credit evaluations of its customers, maintains reserves for potential credit losses, and generally does not require collateral.

(c) Cash and Cash Equivalents

Cash equivalents consist of securities held in lieu of retention in the form of money market accounts. Securities held in lieu of retention as of September 24, 2004 and September 26, 2003 totaled \$124,200. For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(d) Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on historical write-off experience. The Company reviews its allowance for doubtful accounts monthly. Past due balances over 90 days and a specified amount are reviewed individually for collectibility. All other balances are reviewed on a pooled basis. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

BROWN AND CALDWELL AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 24, 2004 and September 26, 2003

(e) *Equipment, Furniture, and Fixtures*

Equipment, furniture, and fixtures are stated at cost and are depreciated on the straight-line method based upon estimated service lives. The estimated service lives are 3 to 5 years for vehicles and equipment, 7 years for furniture and fixtures, and the lesser of the lease term or 15 years for leasehold improvements. Gains or losses resulting from sales or other dispositions are included in other income in the consolidated statements of income.

(f) *Goodwill*

Goodwill results from the excess of cost over the identifiable net assets of businesses acquired. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, goodwill is evaluated annually for impairment. Impairment is measured as the excess of carrying value over fair value. Based on the Company's most recent evaluation, no provision for impairment is necessary.

(g) *Impairment*

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(h) *Checks in Transit*

The Company may pay a significant amount of accounts payable on the last day of the fiscal year. The amount of these checks remains in the Company's bank account, earning interest, until presented for payment. The excess of these checks over the bank cash balance is included in the consolidated balance sheets as checks in transit.

(i) *Income per Share*

Income per share data are based on the weighted average number of shares outstanding during the year. Stock options and restricted stock are included in the calculation of diluted per share data if they would have a dilutive effect.

BROWN AND CALDWELL AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 24, 2004 and September 26, 2003

(j) *Stock-Based Compensation*

The Company accounts for employee stock options in accordance with Accounting Principles Board Opinion No. 25 and follows the disclosure-only alternative described in SFAS No. 123, *Accounting for Stock-Based Compensation*. The following table illustrates the effect on net income if the fair-value-based method in SFAS No. 123 had been applied in each period.

	2004	2003
Net income, as reported	\$ 2,455,286	5,248,223
Less stock-based compensation expense under SFAS No. 123, net of tax	(7,000)	(64,000)
Pro forma net income	\$ 2,448,286	5,184,223

(k) *Use of Estimates*

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such complex estimates include provisions for doubtful accounts and estimates used in recognizing revenue based on the percentage-of-completion method. Actual results could differ from these estimates.

(l) *Reclassifications*

Certain reclassifications not affecting net income have been made to the 2003 consolidated financial statements in order to conform to the 2004 presentation.

(3) *Note Payable – Investment*

In 1988, the Company purchased \$1,000,000 of common stock in the Architects & Engineers Insurance Company (AEIC), a risk retention group formed pursuant to the Liability Risk Retention Act of 1986. The Company's investment was accounted for using the cost method. During the year ended September 26, 2003, the Company wrote down the carrying value of its investment to \$750,000 based on an assessment of the probable recoverable amount.

In December 2003, the Board of Directors of AEIC approved a proposed transaction in which the Company would transfer its investment to another shareholder of AEIC and the related promissory note payable and letter of credit would be cancelled. Accordingly, the investment was reclassified as a current asset and was included in the accompanying consolidated balance sheet under the caption prepaid expenses and other current assets as of September 26, 2003.

In June 2004, the proposed transaction was completed, and the investment was transferred to another shareholder of AEIC in exchange for cancellation of the related note payable and letter of credit.